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C O N F I D E N T I A L SECTION 01 OF 03 TBILISI 002991

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STATE FOR EUR/CARC AND EB/TPP/ABT:TLERSTEN
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TAGS: [EIND](#) [ETRD](#) [GG](#)

SUBJECT: IMERETI REGION: SEEKING A VISION FOR ECONOMIC
GROWTH

REF: TBILISI 02616

Classified By: Ambassador John F. Tefft, Reason 1.4(b) and (d).

¶1. (C) Summary. The Georgian city of Kutaisi and its surrounding region, Imereti, are struggling to find a clear direction for future economic growth. Regional leaders view the city, and the region, as a transit and regional service center for medicine, education, and trade, but seem to focus more on past failures. Regional unemployment is about 15 percent. Local government leaders fret about the potential economic fallout from poor Russia-Georgia relations as approximately 20 to 30 percent of the population depends on remittances from abroad. However, regional infrastructure expenditures have doubled since the Rose Revolution. A local sewing plant gives a glimpse of how, with good marketing, Georgia could attract foreign companies with cheap labor and proximity to European markets. The local hospital has been outfitted with new, American-made equipment, but it illustrates how good political connections still count in Georgia.

¶2. (C) Economic and business leaders in the Imereti region city of Kutaisi still struggle to get past the damage caused by the post-Soviet economic collapse. Econoff visited Kutaisi from October 12-13 to discuss with economic and business leaders the region's economic growth prospects. Unemployment is a high 26 percent in Kutaisi, and 15 percent in the region, according to unofficial calculations by the Imereti Economic Department. The average wage is only USD 85 per month, and the region's population has decreased from 850,000 in 1998 to 700,000 now. Infrastructure improvements only started after the Rose Revolution, and Econoff noted modest upgrades in the roads from a visit one year ago. Almost every meeting centered around Kutaisi's prospects as a transit city, but it remains unclear how the city plans to capitalize on its location. Some local leaders see Kutaisi as a service center for all of Western Georgia in education, hospitality, medicine, and trade. Two bright spots exist in a successful sewing plant and a high-quality regional medical center that looks to make money from medical tourism. The medical center also hosts President Saakashvili whenever he passes through the region, and is equipped so he can lead emergency ministerial meetings. The center treated injured soldiers from the Kodori Gorge operation in August.

Challenges for the region include a lack of skilled workers, poor access to credit (interest rates hover at 22 percent), problems attracting investment, obsolete equipment, and low demand for existing production. End Summary.

Prospects for Economic Growth

13. (C) Econoff met with various economic and business leaders in Imereti, including the region's Acting Governor, Zurab Kajaia. In each meeting, when Econoff asked about prospects for economic growth, the responses all centered around lengthy historical descriptions of how badly the region has fared since the breakup of the Soviet Union. Imereti was a major industrial center until 1991, sending over 80 percent of its industrial output to the rest of the Soviet Union. When pressed about future economic growth prospects, responses centered on Kutaisi's potential as a transit and service center. Economic leaders see potential in food processing and packaging, services, and cultural and historical tourism. Local leaders see the need to improve the infrastructure -- including establishing a Western standard hotel -- in order to improve tourism prospects. To that end, the region's budget for 2007 infrastructure projects is \$17 million, which is double the 2004-2005 amounts budgeted.

14. (C) Archil Pruidze of the Kutaisi Economic Department presented us with a plan to promote the region's agriculture, service, and tourism potential. It includes a local government initiative to support small and medium enterprises (SMEs) and to create a marketing bureau. The local government plans to provide loans to local SMEs interest-free

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and will be the guarantor. However, Pruidze was unable to explain what guarantee the local government has for loan repayment. He expressed concern about Russia's threats to stop money transfers to Georgia, and said that in the last eight months, over USD 22 million was sent from Georgians in Russia to banks in Kutaisi. He estimated that 20 to 30 percent of people in Kutaisi depend entirely on remittances. See reftel.

A Successful Sewing Plant

15. (C) Econoff visited the successful sewing plant, Imeri, which has contracts with various German clothing manufacturers and also with the GoG to produce uniforms. One German company, LEBEK, sells a woman's t-shirt in Germany for 33 euros, and pays Imeri 0.80 euros for each one. The seamstresses make approximately USD 103 per month for a five-day, 40-hour workweek. Working overtime can increase the pay to about USD 125. Of the 380 employees, there are only about 15 men, who work mainly in technical repair positions. The company director laughed when Econoff asked if any men work sewing products. He did say, however, that about half of the seamstresses' husbands do not work.

Medical Center: High-tech Medical Tourism Prospects....

16. (C) Kakha Nuralidze, General Director of the West Georgian National Center of Interventional Medicine proudly showed Econoff around his hospital. It opened in January, and started accepting patients six months ago. Of the 22,000 patients served, 700 were from Turkey, including the Turkish Deputy Minister of Justice. The hospital boasts a surgical unit for cardio, orthopedic, and neuro surgeries. The hospital also has anesthesiology, intensive care, blood transfusion and banking, and emergency units. According to Kuralidze, the hospital is a leader in the former Soviet Union and Eastern Europe, and boasted that "even Moscow doesn't have equipment as good as ours." At times, he could have been a sales rep for the GE and Johnson & Johnson

equipment his hospital uses, and made it clear that he prefers the American equipment to European. Kuralidze and his top surgeons spent time training in the U.S., France, Germany, Moscow, and Austria. He said BP and the Red Cross have started negotiations to use the center's services. Total startup costs were USD 20 million. The GOG contributed USD 4.5 million and USD 12.6 million to construction and equipment costs, respectively. Annual operating costs are expected to be about USD 4 million, most of which Nuralidze said will come from the GOG central budget. He mentioned that although the GoG will pay approximately 75% of the cost of a patient's operation, most diagnostic procedures are paid 100% by the patient, which he says should help with operational sustainability. The hospital boasts a 10-bed hotel wing to house patients and their families traveling from afar.

...And Emergency GoG Cabinet Operations

17. (C) The hospital tour took a political turn when Nuralidze displayed the VIP wing, which houses a first-rate hotel room, complete with a jacuzzi, adjacent to a large office with a USD 10,000 crocodile-skin office chair. Nuralidze said President Saakashvili uses the office and the room whenever he passes through the region, and the Minister of Health uses it almost monthly. Adjacent to the hotel room is a large, fully-equipped conference room ready to be used at a moment's notice for Ministerial-level meetings. Nuralidze expressed allegiance to President Saakashvili's National Movement. He boasted that the GOG's recent Kodori operation was managed from the hospital's conference room. He said twelve wounded soldiers came to the hospital for treatment after the Kodori operation, two with life-threatening wounds. He then presented a lengthy plea for the USG to help Georgia get to NATO by 2008, which he believes would guarantee Georgia's safety. He believes that Georgia is the United States' most

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reliable and strategic partner against Iran.

Medical Center's Sustainability is Somewhat Questionable

18. (C) While the hospital in general was clean, it is already starting to look older than its six months of use would suggest. Some of the public-use restrooms were missing plumbing, were dirty, and generally unkempt. The private patient bathrooms were not much better. Even though the hospital prides itself on its highly trained medical staff, basic cleanliness issues could prove to be an obstacle to maintaining its high standards.

COMMENT

19. (C) Comment: In Kutaisi, local government and business leaders still seem to be more focused on past difficulties resulting from the breakup of the Soviet Union than they are on establishing a clear direction for the economy of their region. The sewing plant we visited demonstrates that there is an opportunity for very profitable operations in Georgia, based on the low cost of labor, augmented by Georgia's proximity to Europe and recent pro-business reforms. However, Georgia is only just beginning to market its advantages to potential foreign investors and needs to do a better job getting the message out. Our visit to Nuralidze's new hospital demonstrates that political connections still play a significant role in Georgian business. The hospital has had a successful beginning, but it will require skillful and dedicated management and marketing if it is to attract the higher class clientele it desires from Georgia and abroad. Keeping it running will be an expensive proposition for the GOG otherwise. End Comment.

TEFFT